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C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 000300

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USDOC FOR 4530/MAC/ANESA/OSA/DROCKER/STERN
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TREASURY FOR INTERNATIONAL-SOUTH ASIA/MACDONALD

E.O. 12958: DECL: 11/05/2014
TAGS: ENRG EPET ECON PREL IR IN
SUBJECT: INDIA STRENGTHENS OIL AND GAS TIES WITH IRAN

REF: A. 2004 NEW DELHI 7089

¶B. 2004 STATE 177574
¶C. 2004 NEW DELHI 4871
¶D. 2004 NEW DELHI 4590
¶E. 2004 NEW DELHI 1770
¶F. 2004 STATE 166919
¶G. 2004 STATE 108728

Classified By: Ambassador David C. Mulford, Reasons 1.4 (b) and (d)

¶1. (C) Summary: On January 7, India and Iran strengthened significantly their oil and gas relationship when they reached an agreement in which India will purchase a total of 7.5 million tons per year (MMTA) of LNG for 25 years beginning in 2009. Iran will reportedly allow Indian state-controlled companies to participate in at least three upstream oil and gas projects (South Pars, Yadavaran, and Jufeyr). Although the deal has not been formalized and the contracts have not been signed, the LNG and upstream investment elements of the deal appear to be quite firm. If the deal goes through, it could have ILSA implications. We will continue to raise our concerns with both the Ministry of Foreign Affairs and with the oil companies, all of which are aware of our ILSA concerns. The deal also included proposals for an Indian and Iran state-controlled companies to cooperate in petrochemical manufacturing and CNG development. The package represents still further evidence that the Indian oil companies, cheered on by the GOI, are vigorously seeking properties abroad. The two governments also decided to discuss in February issues relating to an Iran-Pakistan-India gas pipeline. With the GOI's decision to enter into large and long-term LNG purchase agreements, Embassy believes that the commerical prospects of an Iran-Pakistan-India gas pipeline recede further even as the idea remains a topic of Iran-India diplomacy. End Summary.

¶2. (C) India took some significant steps in intensifying its oil and gas relationship with Iran and strengthening its energy security during the first weekend of January. After more than a year of negotiations, the two countries reached a wide-ranging oil and gas package agreement on the sidelines of January 6-7 Asian Oil Ministers meeting in New Delhi. The announcement was made on January 7 by India Petroleum and Natural Gas Minister Mani Shanker Aiyar and Iranian Oil Minister Bijan Namdar Zanghneh. The deal has not been formally signed and has some ways to go before the various elements are concluded. Some parts of the deal such as proposed participation by Indian state-controlled companies in Iran's oil and gas sector could be ILSA-sanctionable depending on the nature of the participation and how the contracts are structured. The GOI and the Indian oil companies, none of which have any significant U.S. interests or presence, are well aware of our ILSA concerns. We will continue to raise our concerns with both the Ministry of External Affairs and with the oil companies.

Large LNG Deal

¶3. (U) For India, the most significant and firm element of the package deal is the commitment to buy 7.5 million metric tons of LNG per year for 25 years beginning in 2009. The state-controlled Indian companies Indian Oil Corporation (IOC) and GAIL India Limited will purchase the LNG from the National Iranian Gas Export Corporation (NIGEC). It is not clear which Iranian field will supply this gas.

¶4. (SBU) Much of the delay in reaching the LNG agreement was over pricing. An official of GAIL told Econoff that the Indian companies will buy the gas at a price that is capped at $3.21 per million british thermal unit (MBTU). The price will be fixed at $2.97 per unit for three years, after which it will be allowed to float at a formula that comprises a fixed price of $1.2 per unit plus 6.25 percent of the Brent crude price. The Indian companies had resisted the link to crude prices but conceded after the maximum allowable Brent

crude price was fixed at $31 per barrel.

¶5. (SBU) The India companies are not getting as good a price as they have in place for ExxonMobil's RasGas from Qatar. The price for this gas is fixed at $2.53 per unit until 2008, after which it will be linked to crude in the $16-24 range. Nonetheless, GAIL Chairman Proshonto Banerjee said "In the present circumstances, it is a good deal."

A Second LNG Deal

¶6. (SBU) The two government's also endorsed a December agreement between IOC and the Iranian oil company Petropars for a 40 percent IOC share in the development of one of the blocks in South Pars gas field (Ref A). IOC would also get 60 percent stake in a 9 MMTPA LNG liquefaction plant related to this development. The 25-year agreement would provide IOC about 4.5 MMTPA of LNG. Total development costs of this project are estimated at $3.2 billion. GAIL had loudly complained about being left out of the deal in December, claiming that GOI policy has been to allow Indian state-controlled energy companies to invest overseas only in a consortium. GAIL removed its opposition after it was brought into the overall package. The LNG imported in the two deals -- the 4.5 MMPTA from South Pars and the 7.5 MMPTA (para 2) will be marketed in India by GAIL, IOC, ONGC, and Oil India Limited in the 40:25:25:10 proportions.

Other Parts of the Package

¶7. (U) Yadavaran: ONGC Videsh Limited (OVL), the overseas arm of the Indian state-run oil exploration company Oil and Natural Gas Corporation, will get a 20 percent share in the development of Iran's on-shore Yadavaran oil field. This equity stake is equivalent to about 60,000 barrels per day.

¶8. (U) Jufeyr: OVL will get a 100 percent stake in the Iran's Jufeyr field. This field is expected to yield 30,000 per day when developed.

¶9. (U) Bandar Assaluyeh: Iran offered IOC participation in a petrochemical complex under development at Bandar Assaluyeh. The proposed terms for taking part in the project were not disclosed.

¶10. (U) CNG: GAIL proposed investing in development of CNG for Teheran and Esfahan and signed an agreement with the Iran Fuel Conservation Organization for cooperation on CNG development.

¶11. (SBU) Pipeline: An Iranian team will visit India in February to discuss issues relating to trans-Pakistan gas pipeline. The Indian official who backgrounded the overall agreement for the media downplayed the importance of these discussions by emphasizing that security of gas supplies remained a key issue.

Comment

¶12. (C) Although some parts of the deal are merely commitments for further discussion, India's agreement to buy Iranian gas and invest in Iranian upstream oil and gas developments appear to be quite firm. The deal is huge for India -- its 12 MMTPA of LNG represents about half of India's current natural gas production. Together with the 5 MMTPA imported from ExxonMobil's RasGas development, India is becoming a major player in the Asian LNG markets. The deal represents still further evidence that the Indian oil companies, cheered on by the GOI, are vigorously seeking properties abroad. The GOI's goal is to enhance Indian energy security. The oil companies, especially IOC, aspire to become international players who can compete with the majors.

¶13. (C) With the GOI's decision to enter into such large and long-term LNG purchase agreements, Embassy believes that the commerical prospects of an Iran-Pakistan-India gas pipeline recede further. Mani Shanker Aiyar stirred up a flurry of excitement about such a project soon after he assumed office last summer. The excitement appears to have abated now as conditions -- first MFN, then transit rights through Pakistan -- have been appended at the insistence of MEA's Pakistan hands. MEA Joint Secretary Jaishanker told Ambassador that he believes, despite Aiyar's enthusiasm, the obstacles to a trans-Pakistan pipeline are enormous. He characterized Aiyar's public statements in support of a pipeline as "more smoke than fire."

¶14. (C) Embassy notes that large and expensive projects such as a 3,000 kilometer pipeline generally require a private sector backer and promoter. We are not aware that any international oil and gas company has shown an interest in becoming involved. Our contacts in the Indian oil and gas industry are not enthusiastic, saying that the pipeline is

probably not economically viable given the extra risk management costs involved and the projections of alternative sources of supply. In any case, to our knowledge no serious cost-benefit analysis has been done.
MULFORD